MANUFACTURERS HANOVER

9/16/87 85350-2

Financial Digest

Volume XXIV, Number 19 Monday, September 14, 1987

Analysis of Business Trends Plus Selected Financial Indicators

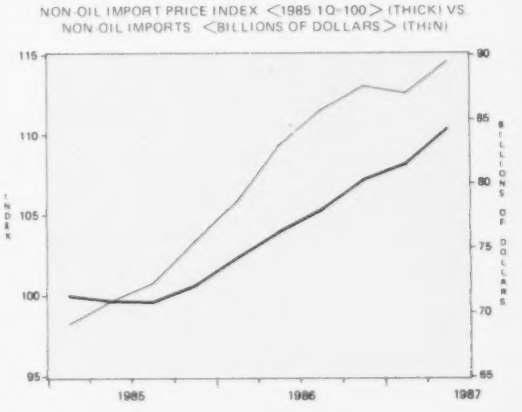
U.S. Exports Lead The Way . . .

The 0.5 percent advance in the government's index of leading indicators for July is a further sign of the improving fortunes of the goods-producing sector of the U.S. economy. The sharp turnaround in the manufacturing sector, in particular, is due principally to improved export performance by U.S. industry which, in turn, can be traced to the drop in the external value of the dollar vis-a-vis the currencies of many of our major trading partners. In the first six months of this year, the volume of merchandise exports rose at a 12 percent annual rate. And early indications are that August's figures will be even better. The latest survey of purchasing managers indicates that production in August was exceptionally strong as were new orders and employment. The manufacturing sector has clearly improved substantially in the past year and is now one of the leading sources of growth in this economy, helping to take up the slack left by the easing of domestic consumption.

Unfortunately, the improved export performance has not been apparent in the dollar-denominated U.S. external accounts. This is because the rising volume of U.S. exports is reported in depreciated dollars but the sharp rise in import prices due to the depreciated dollar and the increase in import volume have combined to cause nominal imports to rise (see chart). Thus, the trade deficit has expanded in spite of improved exports.

Both the value and volume of imports substantially exceed the value and volume of exports. Consequently, it may be some time before improved U.S. exports of manufactures as well as of other products will make a substantial dent in the trade deficit. For one thing, although the dollar has plunged against the currencies of some of our major trading partners, in other cases there has been little change in the exchange rate. Several Asian countries which export heavily to the U.S. tie their currencies to the dollar which insulates their exports from the effects of foreign exchange fluctuations.

Further, many exporters to the U.S. have reduced profit margins to keep down the dollar prices of their goods. With the U.S. growing more rapidly than most other industrial countries whose economies are in the doldrums, the attractive U.S. market offers every incentive for these countries to export to us on competitive terms.



. . . To A Brighter Manufacturing Sector

But the decline in the dollar's value relative to many of the most important trading currencies has clearly made U.S. exports more attractive—particularly manufactured goods. Between June 1986 and July 1987, industrial production grew faster than the U.S. economy as a whole. Clearly, much of the stimulus for increased production came from abroad, since domestic demand has been soft of late.

The increase in foreign demand for U.S.-manufactured goods has had a widespread impact on the American economy. Industrial production, for example, rose a healthy 0.8 percent in July, and upward revisions in the data for May and June suggest that this was not an isolated event. In recent months, improved production has been evident throughout a range of industries with particular strength in the capital goods area. Both durable and non-durable goods' production have gained strongly; durable goods production jumped at an annual rate of 6.2 percent in the last three months, while non-durables went up 7.7 percent. Unfilled orders for durable goods rose by 1.4 percent in July—the fifth straight month of increases in this important indicator of potential eco-

Manufacturers Hanover Economics Department 17/270

Copyright 1987 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

nomic strength. Areas of strength included transportation equipment (mainly aircraft and parts), electrical machinery and primary metals, and orders for non-defense capital goods (an omen for the future) increased by 5.1 percent in July over June's performance.

Reflecting the widespread improvement in the goods-producing sector as a whole, the rate of capacity utilization reached 80.5 percent in July, with manufacturing capacity utilization reaching 81 percent. In the areas of textiles, paper and rubber and plastics, the capacity utilization rate exceeded 90 percent—approaching the levels at which bottlenecks and delivery delays begin to affect adversely economic growth.

Employment data also highlight the improving trends in the goods-producing industries. In August, non-agricultural payrolls rose by 156,000 after a 296,000 jump in July, contributing to an increase of two million jobs in the past year. Although manufacturing payrolls held steady in August, such employment enjoyed a sizable increase of 91,000 in July. Further, improved efficiency and cost control as the manufacturing sector

Short Term Paper Outstanding
(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/26/87)	164,243	– 95	+ 7,227
New York City (9/2/87)	37,178	+ 247	+ 4,570
Commercial Paper (9/2/87)	348,849	+ 4,536	+ 26,984

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/26/87)	268,906	– 233	+ 9,741
New York City (9/2/87)	57,229	+ 814	– 423

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/26/87)	792,068	+ 3,090	+49,456
New York City (9/2/87)	178,361	+ 2,681	+17,569

Financial Markets

	Friday 9/11/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.54%	– .03	+ 1.26
180-Day Bills†	6.76	– .07	+ 1.18
Longest Bills†	7.60	+ .01	+ 1.87
Recent Issues:			
7¾s 8/31/89	8.27	+ .07	
7⅞s 6/30/91	8.71	+ .04	
8⅝s 8/15/97	9.32	+ .03	
8⅞s 8/15/17	9.50	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (9/10/87)	8.38%	+ .33	+ .58
Blue List Total ($ Million)	$1,530	– $323	– $242
30-Day Visible Supply ($ Million)	$1,803	+ $450	+ $819
Total	$3,333	+ $127	+ $577
Corporates:			
Moody's Aa Composite (9/10/87)	10.33%	+ .23	+ .44
30-Day Visible Supply ($ Million)	$6,589	– $453	+$4,706
Stocks:			
Dow-Jones Averages:			
Industrials	2,608.74	+ 47.36	+850.02
Transportation	1,032.53	+ 9.08	+293.15
Utilities	199.92	– 1.60	+ 1.14
65 Stocks	946.65	+ 11.64	+261.36
N.Y.S.E. Composite Index	180.02	+ 2.44	+ 47.21
N.Y.S.E. Avg. Daily Vol. for Week (000's)	191,136	+ 20,442	+ 8,944

*34% Taxable equivalent 12.70%. † Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/11/87	Week Ago
Overnight	6.94%	6.69%
1 month	7.38	7.19
3 month	7.50	7.31
6 month	7.94	7.75
1 year	8.50	8.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/11/87)	Currency Per U.S. $	Week Ago
Canada	1.3173	1.3153
France	6.0010	6.0170
Germany	1.7925	1.7979
Italy	1299.75	1303.75
Japan	141.40	141.73
Mexico	1523.00	1516.00
Switzerland	1.4825	1.4885
U.K.*	1.6580	1.6535

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/11/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–1.3%	–4.5%

emerged from the difficulties of the early 1980s is now paying off. Unit labor costs, for example, rose only at a 2.4 percent annual rate in the second quarter although prices increased at a 4.3 percent rate. The current external value of the dollar has allowed U.S. producers to increase prices modestly while still keeping them lower than prices for competing imports. Indeed, prices for non-energy imports have risen twice as fast as export prices.

But Some Problem Industries Remain

But the improved fortunes of the goods-producing sector, particularly manufacturing, do not prove that this sector is experiencing a renaissance. Many important industries, such as the steel and the auto producers, remain in the doldrums or worse. With projected economic growth for the U.S. and for our major trading partners modest at best for 1987 and 1988, the prospects for a strong and sustained revival in U.S. manufacturing and in U.S. exports of manufactured goods are questionable. Yet it is clear that a vigorous and competitive goods-producing sector is necessary for a strong U.S. economy. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/9/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	217.532	+ 2.582	+22.309
Loans to Depository Inst.	.748	+ .202	− .503
Float	.877	+ .366	+ .015
Total Reserve Bank Credit	234.885	+ 3.240	+21.400
Treasury Deposits with Federal Reserve Banks	3.698	+ .202	+ .274
Currency in Circulation	218.336	+ 1.751	+15.825
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	183.882	+ .583	+24.683
	9/9/87		
Member Bank Reserves:			
Total Reserves Held	57.760	+ .450	+ 6.310
Excess (Deficiency)	1.188	+ .015	+ .395
Net Free Reserves	.714	+ .132	+ .440
Monetary Aggregates †		**% Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (8/31/87)	750.7	− 1.8‡	+ 9.0‡
M2 (August '87)	2,860.1	+ 3.0	+ 5.2
M3 (August '87)	3,593.8	+ 4.7	+ 5.8
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 9/11/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.36%	6.46%	7.14%
* Federal Agencies	7.30	7.60	7.45
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.20	7.58	8.18
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.43	7.83	8.15

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.15%	Oct.	7.30%
15- 29 days	7.30	Nov.	7.32
30- 59 days	7.30	Dec.	7.34
60- 89 days	7.38	Jan.	7.55
90-179 days	7.29	Feb.	7.55
180-239 days	7.20	Mar.	7.55
240-270 days	7.20		

‡Industrial Paper—Prime			
30- 89 days	7.33%	†Federal Funds Effective Rate	7.15%
90-120 days	7.40		

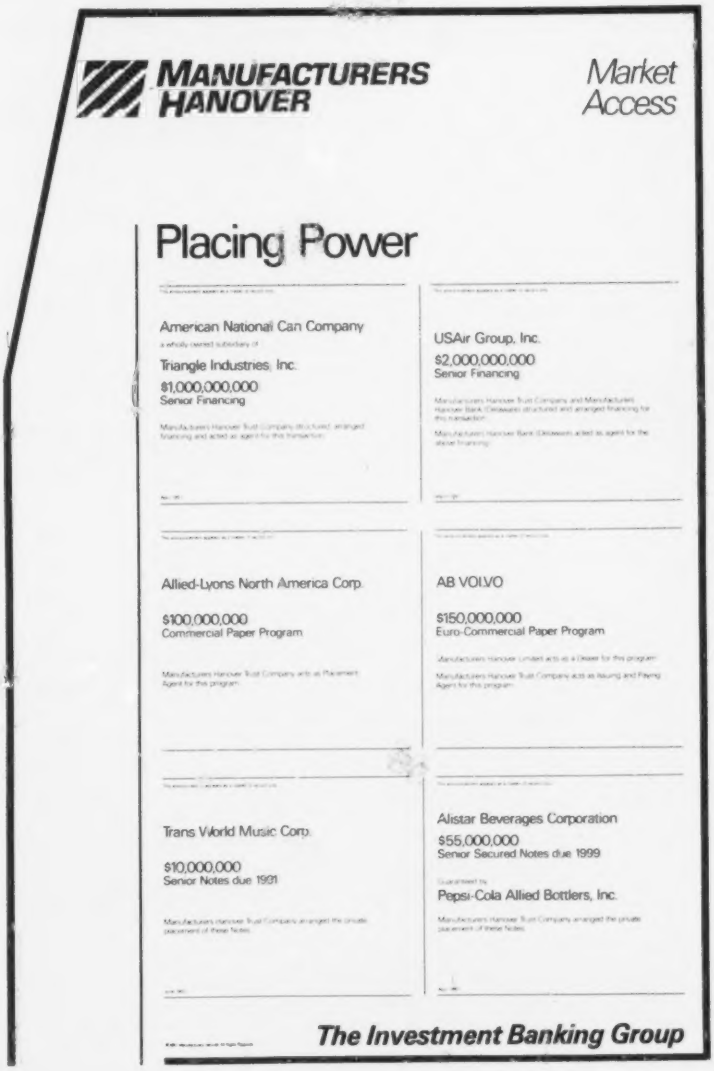
‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87	$ 4,448	$ 4,378	$ 4,212
Gross National Product (1982 Dollars)*	2nd Q'87	$ 3,794	$ 3,772	$ 3,705
Percent Change, Annual Rate	2nd Q'87	2.3	4.4	0.6
Change in Consumer Prices*	Jul '87	2.4% (1)	4.8% (1)	0.0%
Change in Producer Prices*	Aug '87n	0.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Aug '87n	113,081	112,727	110,067
Unemployment as % of Civilian Labor Force†	Aug '87n	6.0%	6.0%	6.8%
Personal Income*	Jul '87	$ 3,738	$ 3,723	$ 3,540
Leading Indicators Composite Index (1967=100)†	Jul '87n	191.8	190.8r	179.9
Industrial Production Index (1977=100) †	Jul '87	129.8	128.8	124.9
Net Change in Consumer Installment Credit †	Jul '87n	$ 3.46	$ 4.55r	$ 6.28
U.S. Merchandise Trade Balance	Jul '87n	−$ 16.47	−$ 15.71	−$ 16.05
Plant and Equipment Expenditures*	4th Q'87n	$406.37(a)	$398.04(a)r	$388.69
Private Housing Starts (Thousands of Units)*	Jul '87	1,611	1,597	1,786
New Construction Expenditures*	Jul '87n	$ 391.8	$ 392.4	$ 391.0
Total Business Inventories †	Jun '87	$ 674.2	$ 671.6	$ 654.1
Total Business Sales †	Jun '87	$ 453.1	$ 446.3	$ 422.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.



MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

5883 C 939 SRI A0001
KI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014